



INDIANA STATE TEACHERS' RETIREMENT FUND

**THE REPORT OF THE
ANNUAL ACTUARIAL VALUATION**

AS OF

JUNE 30, 2006

GRS

Gabriel Roeder Smith & Company



December 27, 2006

The Board of Trustees
Indiana State Teachers' Retirement Fund
Indianapolis, Indiana

Dear Board Members:

Submitted in this report are the results of the June 30, 2006 actuarial valuation of the Indiana State Teachers' Retirement Fund.

The member census data and the asset information for this valuation were furnished by your Executive Director and Staff. Their efforts and cooperation in furnishing these materials are acknowledged with appreciation. We did not audit the information provided, but we did review it for reasonableness and compared it with the prior year's submission for consistency.

The actuarial assumptions were adopted by the Board pursuant to the Experience Study dated August 14, 2003 and covering the period July 1, 1996 to June 30, 2002. Assumptions are summarized in Section G.

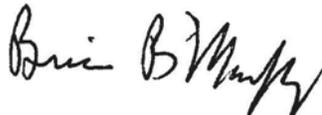
Your attention is directed to the Summary of Valuation Results on page 1 and to the Comments on pages A-1 and A-2.

The valuation was completed under the supervision of a Member of the American Academy of Actuaries with significant experience in valuing public employee retirement systems, and was prepared using generally accepted actuarial principles and in accordance with standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produce results which are reasonable.

Respectfully submitted,



Judith A. Kermans, EA, MAAA



Brian B. Murphy, FSA, EA, MAAA

JAK:clb:lr

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SUMMARY OF RESULTS



SUMMARY OF KEY VALUATION RESULTS JUNE 30, 2006

	PRE-1996 FUND	1996 FUND	ISTRF TOTAL	PRIOR YEAR TOTAL
Fund Members				
Retired Members and Beneficiaries				
Number	38,522	1,327	39,849	38,512
Annual Annuity and Pension Payments	\$ 624,573,242	\$ 25,459,161	\$ 650,032,403	\$ 607,180,997
Inactive Members				
Number - Vested	4,281	1,022	5,303	5,243
Number - Non Vested	9,671	23,241	32,912	32,059
Active Members				
Number	36,994	36,356	73,350	73,923
Annual Payroll	\$ 2,237,379,796	\$ 1,565,341,424	\$ 3,802,721,220	\$ 3,734,329,113
Accrued Liabilities - Annuities and Pensions				
Retired Member				
Annuity Liabilities	\$ 739,329,648	\$ 26,838,685	\$ 766,168,333	
Pension Liabilities	<u>5,498,785,649</u>	<u>255,799,206</u>	<u>5,754,584,855</u>	
Annuity and Pension Liabilities	\$ 6,238,115,297	\$ 282,637,891	\$ 6,520,753,188	\$ 5,873,224,044
Inactive Members				
Annuity Liabilities	\$ 203,774,561	\$ 66,018,471	\$ 269,793,032	
Pension Liabilities	<u>157,242,315</u>	<u>27,354,676</u>	<u>184,596,991</u>	
Annuity and Pension Liabilities	\$ 361,016,876	\$ 93,373,147	\$ 454,390,023	434,961,974
Active Members				
Annuity Liabilities	\$ 2,656,148,967	\$ 527,939,160	\$ 3,184,088,127	
Pension Liabilities	<u>5,747,189,464</u>	<u>1,459,151,330</u>	<u>7,206,340,794</u>	
Annuity and Pension Liabilities	\$ 8,403,338,431	\$ 1,987,090,490	\$ 10,390,428,921	9,956,707,426
Total	\$15,002,470,604	\$2,363,101,528	\$17,365,572,132	\$16,264,893,444
Funding Value of Assets	\$ 5,477,221,211	\$2,209,467,754	\$ 7,686,688,965	\$ 7,065,299,476
Market Value of Assets	\$ 5,551,851,008	\$2,239,572,824	\$ 7,791,423,832	\$ 7,179,715,875
Unfunded Actuarial Accrued Liability	\$ 9,525,249,393	\$ 153,633,774	\$ 9,678,883,167	\$ 9,199,593,968
Funded Ratios (Funding Value Basis)				
Retired Member				
Annuity Liabilities	99.1%	99.1%	99.1%	
Pension Liabilities	<u>34.3%</u>	<u>75.1%</u>	<u>36.1%</u>	
Annuity and Pension Liabilities	42.0%	77.4%	43.5%	52.2%
Active Member				
Annuity Liabilities	100.0%	100.0%	100.0%	
Pension Liabilities	<u>0.0%</u>	<u>89.6%</u>	<u>0.0%</u>	
Annuity and Pension Liabilities	32.6%	95.7%	44.7%	38.5%
Total	36.5%	93.5%	44.3%	43.4%
Computed Employer Contribution Rate for Fiscal Year 2008*				
Normal Cost	6.46%	6.65%	6.53%	6.25%
Unfunded Actuarial Accrued Liability	21.29%	0.49%	12.72%	11.96%
Total	27.75%	7.14%	19.25%	18.21%

* For additional information on Contribution Rates see page A-3.

SECTION A



Valuation Results

COMMENTS

Contribution Rates

Page A-3 shows the computed contribution rates for the Pre-1996 Fund, the 1996 Fund and the combination of the two funds. It is this combined column that represents the level percent of payroll funding for the ISTRF. The computed contribution rate for the Pre-1996 Fund is shown for comparison purposes only, since this fund is funded on a pay-as-you-go basis. The computed contribution rate for the 1996 Fund is calculated as if it were a stand-alone plan.

Plan Provisions

The ad-hoc COLA effective January 1, 2007 pursuant to IC 5-10.2-5-41 has been taken into consideration for the purpose of calculating plan liabilities. We are not aware of other changes in plan provisions since the June 30, 2005 actuarial valuation.

Data

Data for the valuation was provided by ISTRF from Indiana Pension Systems, Inc. We reviewed the data for general consistency with the prior year, but did not otherwise audit it.

We hope that, with the help of ISTRF staff, we will have the ability to track additional information that has traditionally been unavailable. The additional information includes:

- 1) July 1 retirees. We have assumed that these retirees are reported as active members for the June 30 valuation. For Teacher plans, July 1 retirees are a special case and should be treated as active;
- 2) Federally funded teachers. Currently, all federally funded teachers along with their member and employer contributions are reported in the Pre-1996 Fund. This results in an overstatement of Pre-1996 Fund liabilities and assets and an understatement of 1996 Fund liabilities and assets. If ISTRF staff could identify these individuals we could then assign them to the proper fund.
- 3) Unused Sick Leave lump sum paid upon retirement. We request that ISTRF collect information regarding amounts paid to each member so that we may refine our estimates.

Pension Stabilization Fund

The Pension Stabilization Fund (PSF) was established some years ago as a means to partially pre-fund liabilities in the Pre-1996 Fund. Limited annual withdrawals are allowed in order to pay pensions to Pre-1996 Fund members.

We understand that approximately \$10 million of the 2006/2007 fiscal year benefit obligation of Pre-1996 Fund members will be paid by monies in the PSF. To the extent possible, this has been taken into account in the development of the contribution rates shown on page 1.

COMMENTS

Change in Assumptions

ISTRF has granted retirees ad-hoc COLAs on a regular basis. In accordance with recent legislation, the ISTRF is required to account for future COLAs in reported liabilities. In the past, COLAs have averaged 1.5% per year. Whether or not COLAs will be paid at levels similar to the past depends on the financial situation of ISTRF each year. Beginning with the June 30, 2005 valuation, an assumption to account for future ad-hoc permanent COLAs was implemented pursuant to the requirements of the Indiana Code, which states that the Board must consult with the actuary and the budget agency before determining the COLA assumption. The June 30, 2006 valuation reflects a future compound COLA assumption of 1.0%, as adopted by the Board.

Investment Experience

Investment experience for the year ended June 30, 2006 was favorable. The market rate of return was 7.9% (see page A-5). Under the asset valuation method, market gains and losses are spread over a 4-year period. The Market Value of assets now exceeds the Funding Value by \$104.7 million. If the Market Value of assets had been the basis for the valuation, the funded ratio would be 44.9% instead of 44.3%.

Recommendations

Currently, the Retired Member Liabilities (annuity plus pension) are less than 100% of the Retired Member Reserve in the 1996 Fund. This is partly the result of changes in retired member data from year to year, and granting ad-hoc COLAs to the retired group. We recommend that a reserve transfer of \$63,882,796 be made from the Employer Reserve for Active Members to the Retired Member Reserve to restore the balance between assets and liabilities in the Retired Member Reserve account.

The financial condition of the ISTRF remains very weak with one of the lowest funded ratios in the nation. We continue to recommend a change in the funding policy to provide for contributions on behalf of all members (not just the 1996 Fund members) on an actuarially determined basis. The current pay-as-you-go method for Pre-1996 Fund members could result in the inability to pay pensions as the growing pension payroll puts additional cash demands on State finances.

COMPUTED EMPLOYER CONTRIBUTION RATES
JUNE 30, 2006

Contributions for	Employer Contributions As %s of Active Payroll For Fiscal Year Ending 2008		
	Pre-1996 Fund	1996 Fund	Totals
Normal Cost:			
Age and Service Pensions	6.17%	6.37%	6.25%
Disability and Death-in-Service	0.29%	0.28%	0.28%
Totals	6.46%	6.65%	6.53%
Unfunded Actuarial Accrued Liability (UAAL):			
Totals	21.29%	0.49%	12.72%
Computed Employer Contribution Rates	27.75%	7.14%	19.25%
\$ Contribution Based on Computed Rates	\$678,000,000	\$122,000,000	\$800,000,000

COMMENTS REGARDING CONTRIBUTION RATES

- The dollar contribution based on computed rates is a projection to the 2008 fiscal year at the 4.5% payroll growth rate assumption and is provided for comparison purposes.
- Unfunded actuarial accrued liabilities are being amortized over 28 future years.
- The table above shows the computed contribution rates for the Pre-1996 Fund, the 1996 Fund and the combination of the two funds. It is this combined column that represents the level percent of payroll funding for the ISTRF. The computed contribution rate for the Pre-1996 Fund is shown for comparison purposes only, since this fund is funded on a pay-as-you-go basis. The computed contribution rate for the 1996 Fund is calculated as if it were a stand-alone plan.

COMMENTS REGARDING DEVELOPMENT OF ASSETS AND LIABILITIES

The Market Value of Assets as of June 30, 2006 was reported to be \$7,791,423,831. Using this figure, the *Funding Value of Assets* (based on the method first implemented for the June 30, 2002 valuation) is \$7,686,688,963 (see page A-5). The difference between the Market Value of Assets and the Funding Value of Assets is the *Funding Value Adjustment*. This amount is allocated between the Pre-1996 Fund and the 1996 Fund based on the respective Market Value of Assets for those Reserves.

The derivation of the Non-Investment Net Cash Flow used in the development of the Funding Value of Assets is shown below. Further details can be found on page F-4.

DEVELOPMENT OF NON-INVESTMENT NET CASH FLOW

	Year Ended June 30	
	2006	2005
Additions		
Member Contributions	\$130,496,002	\$ 117,897,343
Employer Contributions	701,340,085	484,778,888
Total Contributions	\$831,836,087	\$ 602,676,231
Other Additions	6,103,853	4,828,183
Total Additions	\$837,939,940	\$ 607,504,414
Deductions		
Benefit Payments	\$790,287,983	\$ 732,971,666
Other Deductions	1,483,728	2,981,634
Total Deductions	\$791,771,711	\$ 735,953,300
Non-Investment Net Cash Flow	\$ 46,168,229	\$(128,448,886)

Employer contributions in the above schedules do not include any transfers out of the Pension Stabilization Fund.

DEVELOPMENT OF THE FUNDING VALUE OF ASSETS

Year Ended June 30:	2004	2005	2006	2007	2008	2009
A. Funding Value Beginning of Year	\$6,554,364,927	\$6,804,394,628	\$7,065,299,474			
B. Market Value End of Year	6,754,291,553	7,179,715,874	7,791,423,831			
C. Market Value Beginning of Year	6,155,527,008	6,754,291,553	7,179,715,874			
D. Non-Investment Net Cash Flow	(109,203,398)	(128,448,886)	46,168,229			
E. Investment Return						
E1. Market Total: B - C - D	707,967,943	553,873,207	565,539,728			
E2. Amount for Immediate Recognition (7.5%)	487,482,242	505,512,764	531,628,769			
E3. Amount for Phased-In Recognition: E1-E2	220,485,701	48,360,443	33,910,959			
F. Phased-In Recognition of Investment Gain/(loss)						
F1. Current Year: 0.25 x E3	\$ 55,121,425	\$ 12,090,111	\$ 8,477,740			
F2. First Prior Year	(32,096,785)	55,121,425	12,090,111	\$ 8,477,740		
F3. Second Prior Year	(151,273,783)	(32,096,785)	55,121,425	12,090,111	\$ 8,477,740	
F4. Third Prior Year	-	(151,273,783)	(32,096,785)	55,121,425	12,090,111	\$ 8,477,741
F5. Total Recognized Investment Gain/(Loss)	\$ (128,249,143)	\$ (116,159,032)	\$ 43,592,491	\$ 75,689,276	\$ 20,567,851	\$ 8,477,741
G. Total Return Amount Recognized this Year: E2 + F5	\$ 359,233,099	\$ 389,353,732	\$ 575,221,260			
H. Preliminary Funding Value End of Year: A + D + G	6,804,394,628	7,065,299,474	7,686,688,963			
H1. 120% of Market Value End of Year	8,105,149,864	8,615,659,049	9,349,708,597			
H2. 80% of Market Value End of Year	5,403,433,242	5,743,772,699	6,233,139,065			
H3. Funding Value End of Year: H, but not greater than H1, nor less than H2	\$6,804,394,628	\$ 7,065,299,474	\$ 7,686,688,963			
I. Difference between Market and Funding Value: B - H3	\$ (50,103,075)	\$ 114,416,400	\$ 104,734,868	\$ 29,045,592	\$ 8,477,741	\$ -
J. Market Value Rate of Return	11.6%	8.3%	7.9%			

The Funding Value of Assets recognizes assumed investment income (line E2) fully each year. Differences between actual and assumed investment income (line E3) are phased in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The Funding Value of Assets is unbiased with respect to Market Value. At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for 3 consecutive years, it will become equal to Market Value.

**DERIVATION OF EXPERIENCE GAIN (LOSS)
YEAR ENDED JUNE 30**

Actual experience will never (except by coincidence) match exactly with assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below.

	<u>2006</u>	<u>2005</u>
(1) UAAL* at start of year	\$ 9,199,593,968	\$ 8,393,531,361
(2) Normal cost from last valuation	233,395,570	219,099,188
(3) Actual employer contributions	701,340,085	484,778,888
(4) Interest accrual: $[(1) + 1/2 ((2) - (3))] \times .075$	672,421,628	619,551,863
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	9,404,071,081	8,747,403,524
(6) Change from benefit improvements	0	0
(7) Change from revised actuarial methods and assumptions#	512,655,864	460,344,226
(8) Expected UAAL after changes: (5) + (6) + (7)	9,916,726,945	9,207,747,750
(9) Actual UAAL at end of year	9,678,883,167	9,199,593,968
(10) Gain (loss): (8) - (9)	237,843,778	8,153,782
(11) Liabilities at start of year	16,264,893,444	15,197,925,988
(12) Gain (loss) as percent of actuarial accrued liabilities at start of year: (10) / (11)	1.5 %	0.1 %

* *Unfunded actuarial accrued liabilities.*

Increase in UAAL resulting from COLA assumption phase-in.

June 30	Experience Gain (Loss) As % of Beginning Accrued Liability
2005	0.1 %
2006	1.5 %

This schedule does not take into account any differences between actual contributions and recommended contributions based on level funding.

DEVELOPMENT OF ASSETS AND LIABILITIES
JUNE 30, 2006

(MARKET VALUE BASIS)

Reserve Allocation	Pre-1996 Fund	1996 Fund	Total
Member Reserves:			
Active and Inactive	\$2,898,891,374	\$ 602,050,592	\$3,500,941,966
Retired	742,350,130	26,948,333	769,298,463
Total Member Reserves	3,641,241,504	628,998,925	4,270,240,429
Employer Reserves:			
Active	0	1,415,786,493	1,415,786,493
Retired			
Pension Stabilization Fund	1,537,061,366	0	1,537,061,366
Other	373,548,138	194,787,406	568,335,544
Total	1,910,609,504	194,787,406	2,105,396,910
Total Employer Reserves	1,910,609,504	1,610,573,899	3,521,183,403
Total Reserves	\$5,551,851,008	\$2,239,572,824	\$7,791,423,832

ACTUARIAL ACCRUED LIABILITY: COMPUTED AND UNFUNDED

	Pre-1996 Fund	1996 Fund	Total
Retired Members and Beneficiaries:			
Computed Accrued Liability	\$ 6,238,115,297	\$ 282,637,891	\$ 6,520,753,188
Allocated Assets (market value)	2,652,959,634	221,735,739	2,874,695,373
Funding Value Adjustment	(35,661,951)	(2,980,644)	(38,642,595)
Unfunded Accrued Liability	3,620,817,614	63,882,796	3,684,700,410
Active and Inactive Members:			
Computed Accrued Liability	8,764,355,307	2,080,463,637	10,844,818,944
Allocated Assets (market value)	2,898,891,374	2,017,837,085	4,916,728,459
Funding Value Adjustment	(38,967,846)	(27,124,426)	(66,092,272)
Unfunded Accrued Liability	5,904,431,779	89,750,978	5,994,182,757
ISTRF Total:			
Computed Accrued Liability	15,002,470,604	2,363,101,528	17,365,572,132
Allocated Assets (market value)	5,551,851,008	2,239,572,824	7,791,423,832
Funding Value Adjustment	(74,629,797)	(30,105,070)	(104,734,867)
Unfunded Accrued Liability	\$ 9,525,249,393	\$ 153,633,774	\$ 9,678,883,167

PRE-1996 FUND BALANCE SHEET
SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS
JUNE 30, 2006

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$3,641,241,504	\$ 1,910,609,504	\$ 5,551,851,008
2. Funding value adjustment	(48,946,759)	(25,683,038)	(74,629,797)
3. Funding value of assets	3,592,294,745	1,884,926,466	5,477,221,211
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,133,446,589	1,133,446,589
2. For unfunded actuarial accrued liability	6,958,431	9,518,290,962	9,525,249,393
3. Total	6,958,431	10,651,737,551	10,658,695,982
C. Present value of expected future member contributions	530,865,811 *	0	530,865,811 *
D. Total Present and Future Resources	\$4,130,118,987	\$12,536,664,017	\$16,666,783,004

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE
BENEFIT PAYMENTS AND RESERVES**

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. To retired members and beneficiaries			
1. Annual benefits	\$ 739,329,648	\$ 5,498,785,649	\$ 6,238,115,297
2. Reserve	0	0	0
3. Totals	739,329,648	5,498,785,649	6,238,115,297
B. To vested terminated members	203,774,561	157,242,315	361,016,876
C. To present active members			
1. Allocated to service rendered prior to valuation date	2,656,148,967	5,747,189,464	8,403,338,431
2. Allocated to service likely to be rendered after valuation date	530,865,811 *	1,133,446,590	1,664,312,401
3. Total	3,187,014,778	6,880,636,054	10,067,650,832
D. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$4,130,118,987	\$12,536,664,018	\$16,666,783,005

* Based on 3% mandatory member contributions.

1996 FUND BALANCE SHEET
SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS
 June 30, 2006

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

	Annuities	Pensions	Total
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$ 628,998,925	\$1,610,573,899	\$2,239,572,824
2. Funding value adjustment	(8,455,209)	(21,649,861)	(30,105,070)
3. Funding value of assets	620,543,716	1,588,924,038	2,209,467,754
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,464,208,375	1,464,208,375
2. For unfunded actuarial accrued liability	252,600	153,381,174	153,633,774
3. Total	252,600	1,617,589,549	1,617,842,149
C. Present value of expected future member contributions	670,202,938 *	0	670,202,938 *
D. Total Present and Future Resources	\$1,290,999,254	\$3,206,513,587	\$4,497,512,841

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE
 BENEFIT PAYMENTS AND RESERVES**

	Annuities	Pensions	Total
A. To retired members and beneficiaries			
1. Annual benefits	\$ 26,838,685	\$ 255,799,206	\$ 282,637,891
2. Reserve	0	0	0
3. Totals	26,838,685	255,799,206	282,637,891
B. To vested terminated members	66,018,471	27,354,676	93,373,147
C. To present active members			
1. Allocated to service rendered prior to valuation date	527,939,160	1,459,151,330	1,987,090,490
2. Allocated to service likely to be rendered after valuation date	670,202,938 *	1,464,208,375	2,134,411,313
3. Total	1,198,142,098	2,923,359,705	4,121,501,803
D. Total Actuarial Present Value of Expected Future Benefit Payments	\$1,290,999,254	\$3,206,513,587	\$4,497,512,841

* Based on 3% mandatory member contributions.

SECTION B

Historical Comparisons of Valuation Results and Data

**COMPUTED EMPLOYER CONTRIBUTION RATES
EXPRESSED AS PERCENTS OF PAYROLL
HISTORICAL COMPARISON**

PRE-1996 FUND

Valuation Date June 30	Normal Cost	Unfunded Actuarial Accrued Liability			Total Employer Rate
		Active and Inactive	Retired	Totals	
1967	4.10%	4.56%	1.77%	6.33%	10.43%
1969	4.20	4.61	1.90	6.51	10.71
1971	4.17	4.22	2.07	6.29	10.46
1975#	6.31	3.51	1.38	4.89	11.20
1977	6.86	4.07	1.71	5.78	12.64
1979	6.75	4.20	1.81	6.01	12.76
1980	6.71	4.26	1.80	6.06	12.77
1981	6.75	4.02	1.72	5.74	12.49
1983#	6.50	2.46	1.15	3.61	10.11
1985	6.35	2.63	1.05	3.68	10.03
1987	6.35	2.70	1.02	3.72	10.07
1989#	7.59	3.16	0.96	4.12	11.71
1991	7.50	3.26	0.95	4.21	11.71
1992#	7.79	3.39	0.99	4.38	12.17
1993	7.79	3.37	1.01	4.38	12.17
1994	7.79	3.44	1.07	4.51	12.30
1995	7.79	6.73	2.22	8.95	16.74
1996	7.79	6.83	2.34	9.17	16.96
1997#	7.44	7.07	2.26	9.33	16.77
1998	7.42	7.41	2.27	9.68	17.10
1999	7.42	7.76	1.84	9.60	17.02
2000	7.39	8.21	1.95	10.16	17.55
2001	7.32	8.48	2.05	10.53	17.85
2002#	7.39	8.74	2.23	10.97	18.36
2003#	5.99	9.68	3.64	13.32	19.31
2004#	5.94	10.79	4.64	15.43	21.37
2005#	6.18	12.62	5.14	17.76	23.94
2006	6.18	13.17	7.07	20.24	26.42
2006*	6.46	13.73	7.56	21.29	27.75

* Based on 1.0% future COLA assumption.
Actuarial assumptions and/or methods revised.

**COMPUTED EMPLOYER CONTRIBUTION RATES
EXPRESSED AS PERCENTS OF PAYROLL
HISTORICAL COMPARISON**

1996 FUND

Valuation Date June 30	Normal Cost	Unfunded Actuarial Accrued Liability			Total Employer Rate
		Active and Inactive	Retired	Totals	
1996	7.66%	1.36%	0.00%	1.36%	9.02%
1997#	7.61	1.51	0.00	1.51	9.12
1998	7.61	1.46	0.00	1.46	9.07
1999	7.58	1.70	0.00	1.70	9.28
2000	7.61	1.93	0.00	1.93	9.54
2001	7.46	1.86	0.00	1.86	9.32
2002#	7.53	1.97	0.00	1.97	9.50
2003#	6.20	1.77	0.32	2.09	8.29
2004#	6.14	2.10	0.15	2.25	8.39
2005#	6.37	2.35	0.26	2.61	8.98
2006	6.37	0.06	0.18	0.24	6.61
2006*	6.65	0.28	0.21	0.49	7.14

* Based on 1.0% future COLA assumption.

Actuarial assumptions and/or methods revised.

**HISTORICAL COMPARISON
PRE-1996 FUND
ACTUARIAL ACCRUED LIABILITY - PERCENT FUNDED**

If the contributions to ISTRF are level in concept and soundly executed, the Fund will *pay all promised benefits when due -- the ultimate indicator of financial soundness.*

One short-term means of checking a fund's progress under its funding program is shown below. In this indicator, the fund's present assets (cash and investments) are compared with:

- 1) active member contributions on deposit;
- 2) liability for future benefits to present retired lives; and
- 3) liability for service already rendered by active members.

In a fund that has been following the discipline of level percent-of-payroll financing, the liability for active member contributions on deposit (Liability 1) and the liability for future benefits to present retired lives (Liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liability for service already rendered by active members (Liability 3) will be partially covered by the remainder of present assets. In this schedule, total fund assets are applied to Liabilities 1, 2, and 3, respectively, regardless of actual reserve allocations. The State's past practice of contributing on a "pay-as-you-go" basis has resulted in Liability 2 being less than 100% funded in the Pre-1996 Fund.

June 30	<u>Computed Actuarial Accrued Liability</u>			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion)		(1)	(2)	(3)
	(\$ in Millions)						
1975#(a)	\$ 216	\$ 451	\$ 903	\$ 312	100%	21%	0%
1980	373	838	1,632	539	100	18	0
1985	713	1,198	2,112	1,073	100	30	0
1987	932	1,406	2,499	1,401	100	33	0
1989#	1,132	1,624	3,449	1,707	100	35	0
1991	1,373	1,853	3,956	2,161	100	43	0
1992(a)	1,521	2,059	4,369	2,376	100	42	0
1993	1,665	2,290	4,553	2,592	100	41	0
1994	1,812	2,483	4,792	2,808	100	40	0
1995	1,930	2,716	5,029	2,984	100	39	0
1996	2,070	2,968	5,245	3,242	100	39	0
1997(a)	2,188	3,234	5,447	3,678	100	46	0
1998	2,374	3,479	5,629	4,130	100	50	0
1999	2,500	3,659	6,014	4,731	100	61	0
2000	2,699	3,890	5,819	5,210	100	65	0
2001	2,669	4,121	5,905	5,363	100	65	0
2002(a)	2,754	4,412	6,332	5,555	100	63	0
2003(a)	2,897	4,833	5,626	5,729	100	59	0
2004(a)	2,870	5,116	5,562	5,766	100	57	0
2005(a)	2,879	5,654	5,722	5,797	100	52	0
2006(b)	2,860	6,037	5,665	5,477	100	43	0
2006(a)(b)	2,860	6,238	5,904	5,477	100	42	0

Legislated plan amendments.

(a) Actuarial assumptions and/or methods revised.

(b) Figures reflect a transfer from the PSF to the 1996 Fund under Act 1001.

HISTORICAL COMPARISON
1996 FUND
ACTUARIAL ACCRUED LIABILITY - PERCENT FUNDED

June 30	<u>Computed Actuarial Accrued Liability</u>			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion)		(1)	(2)	(3)
	(\$ in Millions)						
1996	\$ 14	\$ 0	\$ 33	\$ 21	100%	100%	21 %
1997(a)	46	0	130	72	100	100	20
1998	74	3	222	136	100	100	27
1999	126	4	369	240	100	100	30
2000	195	10	502	368	100	100	33
2001	211	12	605	447	100	100	37
2002(a)	291	17	858	621	100	100	36
2003(a)	382	108	903	826	100	100	37
2004(a)	449	149	1,051	1,039	100	100	42
2005(a)	527	220	1,264	1,269	100	100	41
2006(b)	594	272	1,426	2,209	100	100	94 #
2006(a)(b)	594	283	1,487	2,209	100	100	90 #

(a) Actuarial assumptions and/or methods revised.

(b) Figures reflect a transfer from the PSF to the 1996 Fund under Act 1001.

The percent funded shown above for active and inactive member pension liabilities assumes an asset transfer from the employer contribution reserve to the retiree reserve equal to the amount needed to cover any unfunded retiree liability. The funding ratios shown on pages 1 and B-7 of this report, however, uses the actual reported reserve allocations; therefore, the percent funded figures shown above may not match those on pages 1 and B-7.

UNFUNDED ACTUARIAL ACCRUED LIABILITY

PRE-1996 FUND

June 30	Computed Actuarial Accrued Liability*	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL)
1975#(a)	\$ 1,570	\$ 312	\$1,258
1980	2,843	539	2,304
1985	4,023	1,073	2,950
1991	7,182	2,161	5,021
1992(a)	7,949	2,376	5,573
1993	8,508	2,592	5,916
1994	9,087	2,809	6,279
1995	9,675	2,984	6,691
1996	10,283	3,242	7,041
1997(a)	10,868	3,678	7,190
1998	11,481	4,130	7,351
1999	12,173	4,731	7,442
2000	12,409	5,210	7,199
2001	12,696	5,363	7,332
2002(a)	13,498	5,555	7,942
2003(a)	13,355	5,729	7,626
2004(a)	13,549	5,766	7,783
2005(a)	14,254	5,797	8,457
2006(b)	14,561	5,477	9,084
2006(a)(b)	15,002	5,477	9,525

1996 FUND

June 30	Computed Actuarial Accrued Liability*	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL)
1996	\$ 48	\$ 21	\$ 27
1997(a)	176	72	104
1998	298	136	162
1999	498	240	258
2000	706	368	338
2001	828	447	381
2002(a)	1,167	621	546
2003(a)	1,392	826	567
2004(a)	1,649	1,039	611
2005(a)	2,011	1,269	742
2006(b)	2,292	2,209	82
2006(a)(b)	2,363	2,209	154

Legislated plan amendments.

(a) Actuarial assumptions and/or methods revised.

(b) Figures reflect a transfer from the PSF to the 1996 Fund under Act 1001.

* Including annuity reserve.

The presence of unfunded actuarial accrued liability in the 1996 Fund reflects the inclusion of transfers from the Pre-1996 Fund with prior service credit.

**RETIRED MEMBERS AND BENEFICIARIES MONTHLY ALLOWANCES AND RELATED LIABILITY
HISTORICAL COMPARISON**

PRE-1996 FUND

Valuation June 30	Monthly Allowances Being Paid				Computed Liability			Reserves Available for	Ratio of Reserves to
	Number	Annuities	Pensions	Avg. Total Allowances	Annuities #	Pensions	Total	Retired	Liability
1976*	19,961	\$ 713,332	\$ 4,949,716	\$ 284	\$ 90,519,552	\$ 430,998,792	\$ 521,518,344	\$ 103,417,581	19.8 %
1980	22,255	933,253	7,609,102	384	98,744,304	739,477,692	838,221,996	152,227,411	18.2
1985	24,496	1,412,942	10,989,033	506	149,309,064	1,049,064,600	1,198,373,664	360,036,868	30.0
1986	24,954	1,580,585	11,848,715	538	168,855,576	1,127,083,092	1,295,938,668	423,496,495	32.7
1987	25,492	1,771,901	12,705,712	568	191,274,096	1,214,737,224	1,406,011,320	468,533,788	33.3
1988	25,849	1,954,326	13,521,271	599	212,323,404	1,295,323,680	1,507,647,084	525,277,956	34.8
1989	26,173	2,158,461	14,387,419	632	235,879,716	1,387,778,748	1,623,658,464	575,176,619	35.4
1990	26,664	2,448,268	15,649,770	679	270,612,204	1,521,301,656	1,791,913,860	664,922,515	37.1
1991	27,177	2,729,359	15,498,308	671	300,739,500	1,552,581,216	1,853,320,716	787,869,959	42.5
1992*	27,759	3,006,489	16,441,198	701	341,941,104	1,717,495,500	2,059,436,604	855,640,166	41.5
1993	28,194	3,439,687	17,180,701	731	469,421,977	1,820,905,044	2,290,327,021	927,804,051	41.0
1994	28,677	3,695,040	18,563,890	776	499,429,500	1,983,402,204	2,482,831,704	996,033,842	40.1
1995	29,364	3,955,212	20,228,163	824	534,973,912	2,181,300,588	2,716,274,500	1,054,045,397	38.8
1996	30,120	4,212,455	22,081,911	873	564,310,332	2,404,081,944	2,968,392,276	1,172,253,144	39.5
1997*	30,657	4,432,010	23,949,443	926	590,012,474	2,643,637,512	3,233,649,986	1,490,448,302	46.1
1998	31,307	4,650,748	25,867,893	975	607,908,268	2,870,838,240	3,478,746,508	1,756,324,911	50.5
1999(a)	32,018	4,843,545	27,524,587	1,011	625,058,387	3,034,060,036	3,659,118,423	2,231,076,672	61.0
2000	32,818	5,057,926	30,285,194	1,077	648,366,105	3,242,529,456	3,890,895,561	2,510,470,810	64.5
2001	33,698	5,231,219	32,544,302	1,121	618,238,221	3,503,121,001	4,121,359,222	2,694,552,158	65.4
2002(b)*	34,646	5,444,155	34,613,345	1,156	610,673,717	3,801,054,120	4,411,727,837	2,801,796,282	63.5
2003(b)*	35,627	5,639,861	37,411,550	1,208	641,340,982	4,191,479,956	4,832,820,938	2,832,032,640	58.6
2004(b)*	36,271	5,931,491	39,648,539	1,257	674,524,850	4,441,666,364	5,116,191,214	2,895,442,408	56.6
2005(b)*	37,421	6,261,855	42,621,247	1,306	707,258,030	4,946,244,478	5,653,502,508	2,917,975,867	51.6
2006(b)	38,522	6,561,061	45,486,710	1,351	739,329,648	5,297,258,774	6,036,588,422	2,617,297,683	43.4
2006(b)*	38,522	6,561,061	45,486,710	1,351	739,329,648	5,498,785,649	6,238,115,297	2,617,297,683	42.0

* Revised assumptions and/or methods.

Includes annuity reserve.

(a) The data did not include the COLA effective 7/1/99. An adjustment was made to the pension liability and projected pension payouts for valuation purposes.

(b) Liability calculations include COLA effective the following January.

**RETIRED MEMBERS AND BENEFICIARIES MONTHLY ALLOWANCES AND RELATED LIABILITY
HISTORICAL COMPARISON**

1996 FUND

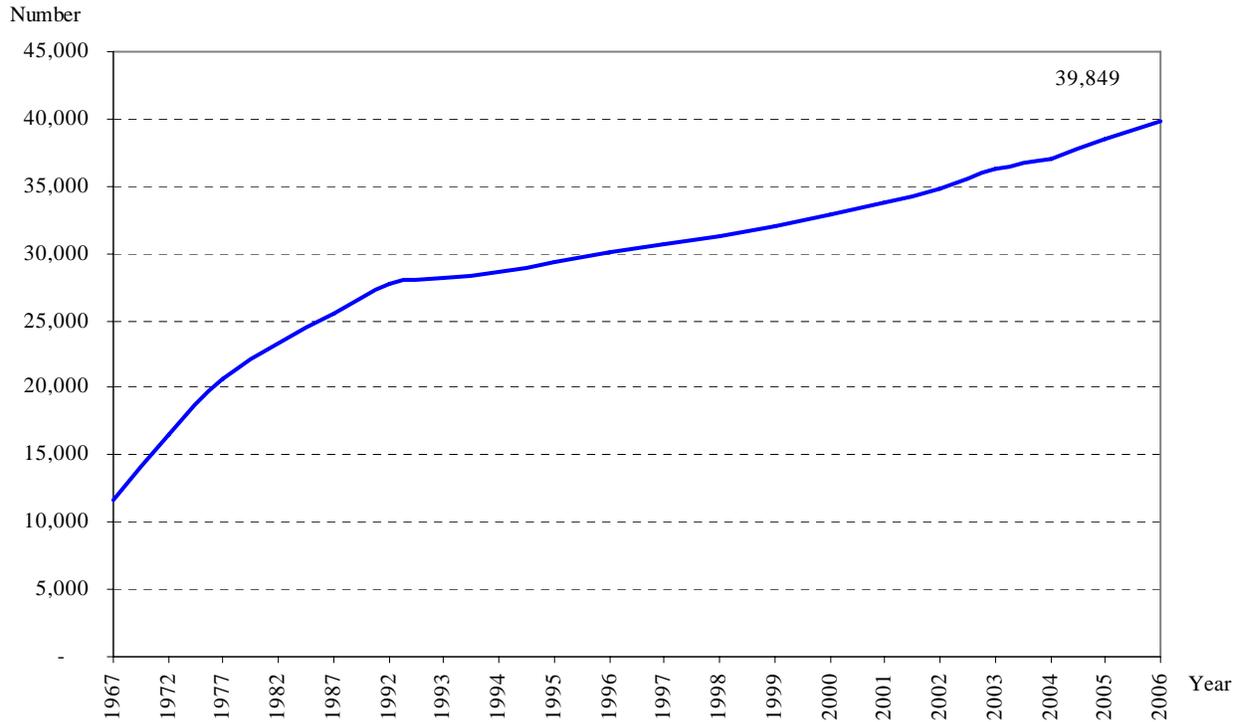
Valuation June 30	Monthly Allowances Being Paid				Computed Liability			Reserves Available for Retired Members	Ratio of Reserves to Liability
	Number	Annuities	Pensions	Avg. Total Allowances	Annuities #	Pensions	Total		
1996	1	\$ 334	\$ 1,727	\$2,061	\$ 55,108	\$ 248,376	\$ 303,484	\$ 303,484	100.0%
1997*	1	334	1,762	2,096	133,846	252,564	386,410	386,410	100.0
1998	18	2,257	16,494	1,042	431,846	2,219,496	2,651,342	2,703,524	100.0
1999	30	3,311	28,760	1,069	498,774	3,404,460	3,903,234	3,903,234	100.0
2000	60	7,460	62,532	1,167	1,126,062	7,553,052	8,679,114	8,679,114	100.0
2001	85	8,169	90,677	1,163	1,138,375	10,942,426	12,080,801	13,070,250	108.2
2002(a)*	108	13,328	125,194	1,283	1,771,082	15,567,573	17,338,655	17,656,813	101.8
2003(a)*	608	93,526	777,095	1,432	12,019,058	95,665,053	107,684,111	25,007,521	23.2
2004(a)*	797	128,231	1,078,437	1,514	16,510,645	132,378,472	148,889,117	109,421,034	73.5
2005(a)*	1,091	172,184	1,543,131	1,572	22,236,208	197,485,328	219,721,536	146,201,342	66.5
2006(a)	1,327	208,357	1,913,240	1,599	26,838,685	245,269,939	272,108,624	218,755,095	80.4
2006(a)*	1,327	208,357	1,913,240	1,599	26,838,685	255,799,206	282,637,891	218,755,095	77.4

* Revised assumptions and/or methods.

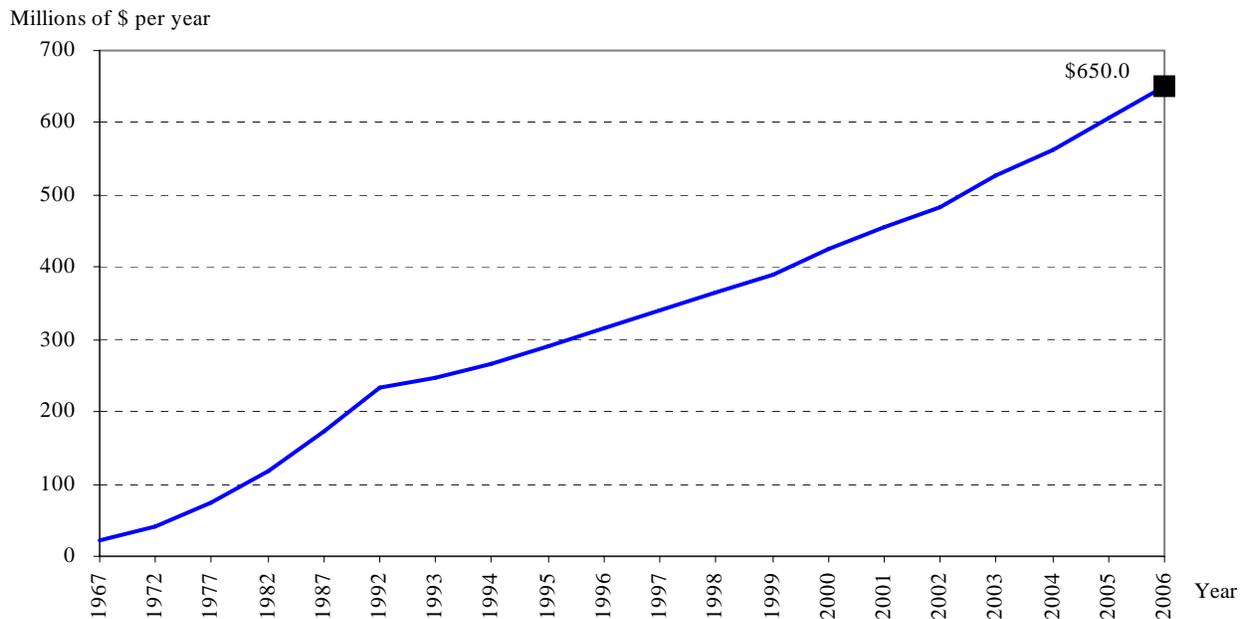
Includes annuity reserve.

(a) Liability calculations include COLA effective the following January.

RETIRED MEMBERS AND BENEFICIARIES RECEIVING BENEFITS



TOTAL RETIREMENT ALLOWANCES BEING PAID



ACTIVE MEMBER DATA HISTORICAL COMPARISON

PRE-1996 FUND

Valuation Date June 30	No. of Active Members	Valuation Payroll (+000)	Averages			
			Age	Service	Salary	Annual Increase
1975	63,932	\$ 749,200	38.7 yrs.	10.9 yrs.	\$11,719	
1980	66,575	1,107,699	39.7	11.9	16,638	8.0%
1985	62,932	1,519,887	41.5	14.2	24,151	7.2
1987	64,157	1,751,709	42.0	14.5	27,303	6.3
1989	65,986	2,044,797	42.6	14.9	30,988	6.5
1991	63,373	2,278,715	43.0	15.4	35,957	7.7
1992	63,980	2,416,263	43.8	16.0	37,766	5.0
1993	64,594	2,536,165	44.0	16.1	39,263	4.0
1994	65,209	2,614,915	44.1	16.2	40,101	2.1
1995	66,542	2,728,811	44.2	16.2	41,009	2.3
1996	70,183	2,805,823	44.2	15.7	39,979	(2.5)
1997	63,520	2,739,436	45.4	16.9	43,127	7.9
1998	59,030	2,699,183	46.4	18.0	45,726	6.0
1999	56,560	2,755,489	47.4	19.3	48,718	6.5
2000	52,920	2,561,533	48.2	20.1	48,404	(0.6)
2001	50,802	2,564,451	48.7	20.7	50,479	4.3
2002	47,510	2,604,956	49.4	21.5	54,830	8.6
2003	43,705	2,448,271	49.6	21.7	56,018	2.2
2004	41,510	2,384,480	50.1	22.2	57,444	2.5
2005	39,097	2,305,726	50.6	22.7	58,974	2.7
2006	36,994	2,237,380	51.1	23.2	60,480	2.6

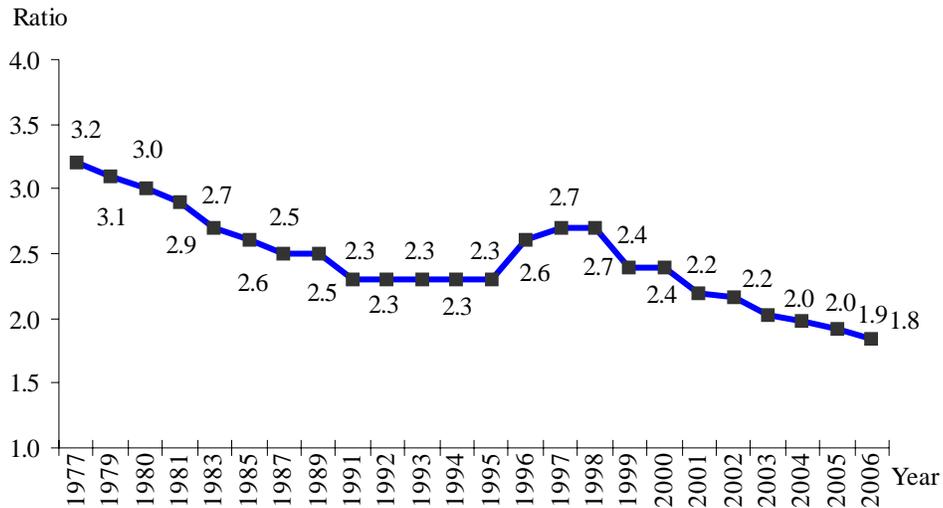
1996 FUND

Valuation Date June 30	No. of Active Members	Valuation Payroll (+000)	Averages			
			Age	Service	Salary	Annual Increase
1996	8,683	\$ 72,506	32.2 yrs.	1.3 yrs.	\$ 8,350	
1997	20,686	245,168	33.0	1.8	11,852	41.9%
1998	25,634	395,758	33.6	2.2	15,439	30.3
1999	21,185 *	538,837	35.3	4.0	25,435	64.7
2000	24,950	631,072	36.4	4.7	25,293	(0.6)
2001	24,846	754,426	36.3	5.5	30,364	20.0
2002	27,873	1,004,515	36.7	6.1	36,039	18.7
2003	29,936	1,136,864	37.0	6.5	37,976	5.4
2004	32,000	1,267,173	37.3	6.9	39,599	4.3
2005	34,826	1,428,604	37.5	7.2	41,021	3.6
2006	36,356	1,565,341	37.7	7.5	43,056	5.0

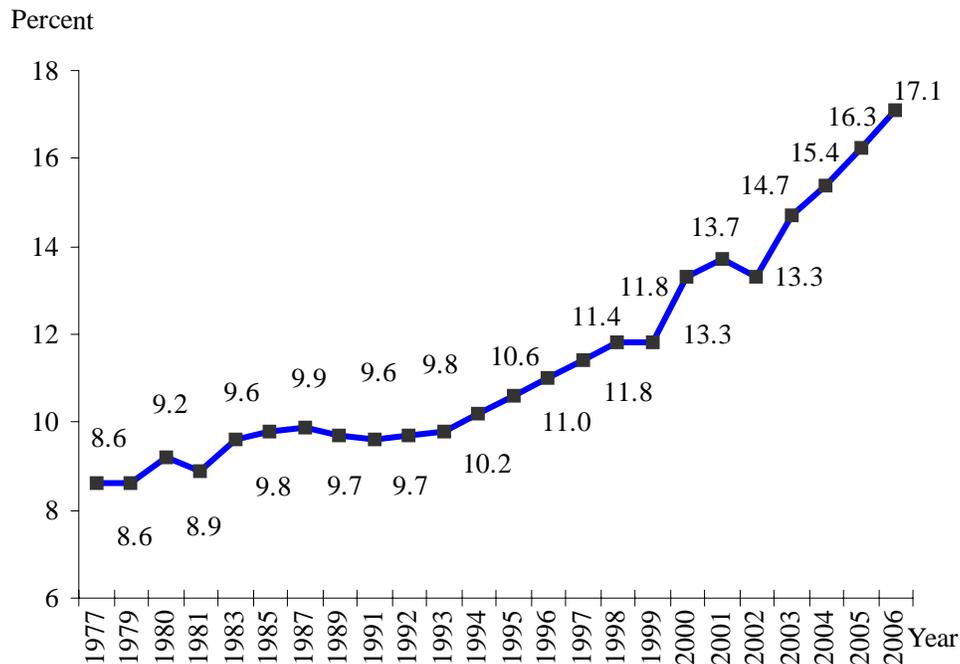
* Excludes non-degreed substitute teachers (who had previously been included in the data but who do not participate in the Fund).

TRF COMPARATIVE STATISTICAL RATIOS

ACTIVE MEMBERS PER RETIRED LIFE



RETIREMENT ALLOWANCES AS A PERCENT OF VALUATION PAYROLL



SECTION C



Population Projections

CLOSED GROUP ACTUARIAL PROJECTIONS

The schedules on the following pages for the Pre-1996 Fund were produced by means of an actuarial projection.

Whereas actuarial valuations provide a snapshot of the Retirement Fund as of a given date, actuarial projections provide a moving picture of Retirement Fund activities. The projected active and retired groups are developed from year to year by applying assumptions regarding pre-retirement withdrawal from service, retirements, deaths, and disabilities. Projected information regarding plan activity produces an expected future benefit payout stream.

Projection results are useful in demonstrating changing relationships among key elements affecting system financial activity. For example: how benefits payable and assets will grow in future decades. **Projections are not predictions of specific future events and do not provide numeric precision in absolute terms.** For instance, benefits projected to occur 10 years in the future will not be exact (except by coincidence), but understanding the changed relationships over a period of years can be very useful.

PRE-1996 FUND
ACTIVE AND RETIRED MEMBER CLOSED GROUP PROJECTION
BASED ON JUNE 30, 2006 VALUATION DATA AND ASSUMPTIONS
(\$ IN MILLIONS)

Year Ended June 30	Active Members		Retired Members	
	Number	Payroll	Number	State-Financed Benefits
2007	34,547	\$ 2,202.9	40,322	\$ 586.4
2008	32,155	2,158.3	41,584	622.5
2009	29,751	2,099.5	42,858	660.6
2010	27,369	2,029.0	44,119	701.9
2011	25,032	1,948.3	45,310	747.6
2012	22,761	1,858.4	46,486	795.0
2013	20,569	1,760.3	47,612	845.7
2014	18,520	1,659.9	48,589	896.3
2015	16,597	1,557.1	49,374	945.8
2016	14,802	1,452.8	50,018	994.2
2017	13,134	1,348.0	50,546	1,041.2
2018	11,602	1,244.4	50,879	1,085.8
2019	10,210	1,144.3	50,989	1,126.3
2020	8,954	1,048.5	50,934	1,163.0
2021	7,826	957.3	50,681	1,195.6
2022	6,811	870.1	50,289	1,224.3
2023	5,904	787.6	49,726	1,248.4
2024	5,091	709.2	49,001	1,267.9
2025	4,359	633.7	48,144	1,283.3
2026	3,703	561.9	47,159	1,294.5
2027	3,114	493.0	46,085	1,301.8
2028	2,603	430.1	44,898	1,304.2
2029	2,163	372.7	43,598	1,301.7
2030	1,781	320.2	42,215	1,294.8
2031	1,459	273.4	40,711	1,282.8
2032	1,181	230.7	39,103	1,266.2
2033	948	193.0	37,405	1,244.6
2034	753	159.8	35,643	1,218.5
2035	591	130.5	33,855	1,188.5
2036	460	105.9	32,035	1,154.5

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

PRE-1996 FUND
ACTIVE AND RETIRED MEMBER CLOSED GROUP PROJECTION
BASED ON JUNE 30, 2006 VALUATION DATA AND ASSUMPTIONS
(\$ IN MILLIONS)

- CONTINUED -

Year Ended June 30	Active Members		Retired Members	
	Number	Payroll	Number	State-Financed Benefits
2037	353	\$ 84.6	30,196	\$ 1,117.2
2038	269	67.2	28,349	1,076.8
2039	203	52.9	26,500	1,033.7
2040	150	40.6	24,687	988.7
2041	109	30.8	22,910	942.0
2042	79	23.1	21,179	894.0
2043	57	17.5	19,504	844.9
2044	42	13.5	17,893	795.3
2045	31	10.2	16,358	746.0
2046	21	7.4	14,904	697.3
2047	15	5.2	13,528	649.5
2048	9	3.6	12,236	602.8
2049	6	2.3	11,027	557.4
2050	4	1.4	9,902	513.6
2051	2	0.7	8,862	471.5
2052	1	0.3	7,905	431.2
2053	0	0.1	7,026	392.8
2054	0	0.0	6,222	356.4
2055	0	0.0	5,490	322.1
2056	0	0.0	4,827	289.8

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

SECTION D

Summary of **Benefit** Provisions

SUMMARY OF BENEFIT PROVISIONS (SUMMARY UPDATED TO JUNE 30, 2006)

REGULAR RETIREMENT (NO REDUCTION FACTOR FOR AGE)

Eligibility - Age 65 with 10 years service or age 60 with 15 or more years of service or if age is at least 55 and the sum of age plus credited service is 85 or more.

Mandatory Retirement Age - None.

Annual Amount - State pension equal to total service times 1.1% of Average Annual Compensation.

Type of Final Average Salary - Average of highest 5 years of compensation. Years do not need to be continuous.

EARLY RETIREMENT (AGE REDUCTION FACTOR USED)

Eligibility - Age 50 with 15 or more years of service.

Annual Amount - State pension is computed as regular retirement benefit, but reduced for each month between age at early retirement and attainment of age 65. The age reduction factor is calculated as the sum of the following:

- 1/10 of 1% for all months from age 60 to 65.
- 5/12 of 1% for months from age at early retirement to 60.

DEFERRED RETIREMENT (VESTED BENEFIT)

Eligibility - 10 years of service. Benefit commences at regular or early retirement eligibility.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and Average Annual Compensation at termination.

DISABILITY RETIREMENT

Classroom disability benefit:

Eligibility - 5 years of service.

Annual Amount - \$125 per month plus \$5 per month for each year of service credit over 5 years.

Alternative disability benefit:

Eligibility - 5 years of service and determined to be disabled by the Social Security Administration. Annual verification of Social Security disability is required.

Annual Amount - Computed as a regular retirement benefit using creditable service to the date of disability and without reduction for early retirement. The minimum benefit is \$100 per month.

SUMMARY OF BENEFIT PROVISIONS (SUMMARY UPDATED TO JUNE 30, 2006)

DEATH BEFORE RETIREMENT

Eligibility - 15 years of service. Spouse to whom member had been married for 2 or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

BENEFIT INCREASES AFTER RETIREMENT

No automatic increases after retirement are provided. Periodically, unscheduled increases have been made.

MEMBER CONTRIBUTIONS

All Fund members are required by state law to contribute 3% of salary contributions to their Annuity Savings Account. These 3% contributions are “picked up” by the employer and contributed on a pre-tax basis on behalf of the employee. Extra voluntary contributions by the member are also possible but on a post-tax basis. At retirement, there are six alternatives for receiving the proceeds of this account including lump sums, full and partial rollovers, full and partial annuitization of the balance and deferred distribution.

FORMS OF BENEFIT PAYMENT (STATE PENSION)

The normal form of benefit payment (**Option A-1**) is a single life annuity with a 5-year certain period. There are 5 optional forms of payment available as listed below. Additionally, members retiring between ages 50 and 62 may integrate their pension benefit with their Social Security benefit by choosing Social Security Integration (**Option A-4**) in conjunction with the normal form or any other optional form selected. Optional forms of payment are calculated on an actuarial equivalent basis.

Option A-2: Straight Life benefit with no certain period.

Option A-3: Modified Cash Refund Annuity (operates in conjunction with the Annuity Savings Account).

Option B-1: 100% Survivorship.

Option B-2: 66 2/3% Survivorship.

Option B-3: 50% Survivorship

State law provides for actuarially adjusted and recalculated benefits based on a new optional form election in the event of the death of the member's spouse after retirement (IC 5-10.2-4-7).

Optional forms of benefit are calculated based on 7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Mortality table set back 3 years and the 1983 Group Annuity Mortality table set back 7 years.

SECTION E



Details of Valuation Data

PRE-1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2006
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Age and Service				
Option A-1 - 5 Year Ceratin & Life				
(Regular)	8,145	\$ 1,160,864	\$ 9,132,538	\$ 10,293,402
(With Opt. A-4)	525	66,346	1,135,003	1,201,349
(S.S. After 65)	2,593	330,583	2,019,635	2,350,218
Option A-2 - Straight Life				
(Regular)	5,035	910,908	6,198,079	7,108,987
(With Opt. A-4)	245	45,414	552,586	598,000
(S.S. After 65)	1,071	169,680	1,015,182	1,184,862
Option A-3 - Cash Refund Annuity				
(Regular)	960	318,180	1,111,867	1,430,047
(With Opt. A-4)	66	35,070	135,669	170,739
(S.S. After 65)	362	87,989	301,961	389,950
Option B-1 - 100% Joint and Survivor				
(Regular)	8,101	1,506,874	10,356,718	11,863,592
(With Opt. A-4)	348	65,264	723,856	789,120
(S.S. After 65)	1,797	303,626	1,822,648	2,126,274
Option B-2 - 67% Joint and Survivor				
(Regular)	2,585	518,382	3,472,699	3,991,081
(With Opt. A-4)	119	21,092	259,810	280,902
(S.S. After 65)	702	131,771	744,281	876,052
Option B-3 - 50% Joint and Survivor				
(Regular)	2,949	543,924	3,772,712	4,316,636
(With Opt. A-4)	184	46,049	415,373	461,422
(S.S. After 65)	890	143,655	913,403	1,057,058
Age and Service Totals	36,677	\$ 6,405,671	\$44,084,020	\$ 50,489,691

PRE-1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2006
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Duty Disability (Classroom)	39	-	\$ 11,488	\$ 11,488
Duty Disability Totals	39	-	11,488	11,488
Non-Duty Disability (Regular)				
Option A-1 - 5 Year Certain & Life	162	\$ 16,830	\$ 171,737	\$ 188,567
Option A-2 - Straight Life	83	10,976	76,620	87,596
Option A-3 - Cash Refund Annuity	21	6,243	22,846	29,089
Option B-1 - 100% Joint and Survivor	278	32,836	275,839	308,675
Option B-2 - 67% Joint and Survivor	22	3,885	25,299	29,184
Option B-3 - 50% Joint and Survivor	35	5,413	34,392	39,805
Non-Duty Disability Totals	601	\$ 76,183	\$ 606,733	\$ 682,916
Non-Duty Death (Regular)				
Spouse	1,205	79,207	784,469	863,676
Non-Duty Death Totals	1,205	\$ 79,207	\$ 784,469	\$ 863,676
Casualty Totals	1,845	\$ 155,390	\$ 1,402,690	\$ 1,558,080
Total Allowances Being Paid	<u>38,522</u>	<u>\$ 6,561,061</u>	<u>\$ 45,486,710</u>	<u>\$ 52,047,771</u>

1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2006
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Age and Service				
Option A-1 - 5 Year Ceratin & Life				
(Regular)	270	\$ 33,192	\$ 352,328	\$ 385,520
(With Opt. A-4)	50	6,233	105,430	111,663
(S.S. After 65)	61	8,804	83,878	92,682
Option A-2 - Straight Life				
(Regular)	186	26,266	252,249	278,515
(With Opt. A-4)	23	4,082	48,488	52,570
(S.S. After 65)	21	4,449	28,051	32,500
Option A-3 - Cash Refund Annuity				
(Regular)	32	11,871	37,381	49,252
(With Opt. A-4)	4	2,615	8,979	11,594
(S.S. After 65)	16	6,800	21,892	28,692
Option B-1 - 100% Joint and Survivor				
(Regular)	317	58,614	464,344	522,958
(With Opt. A-4)	26	4,608	56,601	61,209
(S.S. After 65)	47	4,552	67,102	71,654
Option B-2 - 67% Joint and Survivor				
(Regular)	74	7,561	113,898	121,459
(With Opt. A-4)	7	1,339	17,979	19,318
(S.S. After 65)	8	1,343	10,199	11,542
Option B-3 - 50% Joint and Survivor				
(Regular)	94	15,290	155,570	170,860
(With Opt. A-4)	11	4,293	30,067	34,360
(S.S. After 65)	10	1,727	14,864	16,591
Age and Service Totals	1,257	\$ 203,639	\$ 1,869,300	\$ 2,072,939

1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2006
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Duty Disability (Classroom)	<u>0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Duty Disability Totals	0	0	0	0
Non-Duty Disability (Regular)				
Option A-1 - 5 Year Certain & Life	13	\$ 484	\$ 6,346	\$ 6,830
Option A-2 - Straight Life	8	203	3,749	3,952
Option A-3 - Cash Refund Annuity	1	87	316	403
Option B-1 - 100% Joint and Survivor	21	1,786	13,290	15,076
Option B-2 - 67% Joint and Survivor	1	403	1,188	1,591
Option B-3 - 50% Joint and Survivor	<u>2</u>	<u>227</u>	<u>1004</u>	<u>1,231</u>
Non-Duty Disability Totals	46	\$ 3,190	\$ 25,893	\$ 29,083
Non-Duty Death (Regular)				
Spouse	<u>24</u>	<u>1,528</u>	<u>18,047</u>	<u>19,575</u>
Non-Duty Death Totals	24	\$ 1,528	\$ 18,047	\$ 19,575
Casualty Totals	70	\$ 4,718	\$ 43,940	\$ 48,658
Total Allowances Being Paid	<u>1,327</u>	<u>\$208,357</u>	<u>\$1,913,240</u>	<u>\$2,121,597</u>

PRE-1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2006
TABULATED BY YEAR OF RETIREMENT

Year of Retirement As of June 30	Number	Monthly Pensions	
		Total	Average
Before 1975	1,244	\$ 589,867	\$ 474
1975	258	144,991	562
1976	311	183,730	591
1977	353	211,813	600
1978	433	275,296	636
1979	496	317,768	641
1980	577	363,398	630
1981	560	350,531	626
1982	561	359,522	641
1983	630	406,950	646
1984	706	471,642	668
1985	1,005	716,018	712
1986	817	595,285	729
1987	958	741,946	775
1988	1,058	873,197	825
1989	843	725,942	861
1990	1,308	1,277,019	976
1991	1,255	1,310,457	1,044
1992	1,137	1,219,970	1,073
1993	1,182	1,375,817	1,164
1994	1,318	1,554,867	1,180
1995	1,660	2,037,370	1,227
1996	1,634	2,054,915	1,258
1997	1,419	1,765,517	1,244
1998	1,769	2,184,404	1,235
1999	1,620	2,120,539	1,309
2000	1,888	2,648,025	1,403
2001	1,879	2,822,359	1,502
2002	2,148	3,316,086	1,544
2003	1,852	2,974,142	1,606
2004	2,217	3,627,387	1,636
2005	2,083	3,520,618	1,690
2006	1,343	2,349,322	1,749
TOTALS	38,522	\$45,486,710	\$1,181

1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2006
TABULATED BY YEAR OF RETIREMENT

Year of Retirement as of June 30	Number	Monthly Pensions	
		Total	Average
1974	1	\$ 348	\$ 348
1975	1	271	271
1981	3	1,751	584
1982	1	882	882
1985	1	905	905
1986	2	1,472	736
1987	6	4,563	761
1988	6	4,650	775
1989	5	3,549	710
1990	12	11,057	921
1991	13	10,058	774
1992	11	11,970	1,088
1993	11	10,080	916
1994	18	19,705	1,095
1995	24	28,132	1,172
1996	36	45,525	1,265
1997	31	36,599	1,181
1998	43	51,490	1,197
1999	55	66,127	1,202
2000	79	90,931	1,151
2001	104	145,866	1,403
2002	147	226,512	1,541
2003	202	324,791	1,608
2004	192	282,756	1,473
2005	179	283,714	1,585
2006	144	249,534	1,733
TOTALS	1,327	\$1,913,240	\$1,442

This schedule may include individuals who retired from the Pre-1996 Fund and returned to work, and then retired again (from the 1996 Fund).

PRE-1996 FUND
MONTHLY RETIREMENT ALLOWANCES BY ATTAINED AGE
AS OF JUNE 30, 2006

Attained Ages	Men		Women		Totals	
	Number	Monthly Allowances	Number	Monthly Allowances	Number	Monthly Allowances
Under 20	2	\$ 637	8	\$ 2,516	10	\$ 3,153
20 - 24	1	908	2	1,644	3	2,552
25 - 29	1	637	6	6,113	7	6,750
30 - 34	7	6,169	3	1,265	10	7,434
35 - 39	2	2,418	4	2,738	6	5,156
40 - 44	14	12,711	18	11,111	32	23,822
45 - 49	32	22,051	50	28,923	82	50,974
50 - 54	105	72,573	181	147,656	286	220,229
55 - 59	1,293	2,508,960	2,294	4,005,843	3,587	6,514,803
60 - 64	2,660	4,761,864	4,313	6,649,519	6,973	11,411,383
65 - 69	2,876	4,901,009	4,301	5,893,661	7,177	10,794,670
70 - 74	2,528	3,993,180	3,589	4,525,360	6,117	8,518,540
75 - 79	2,084	3,004,973	3,433	3,690,658	5,517	6,695,631
80 - 84	1,418	1,699,414	2,628	2,339,380	4,046	4,038,794
85 - 89	610	626,547	2,107	1,608,309	2,717	2,234,856
90 - 94	212	215,041	1,181	876,400	1,393	1,091,441
95 - 99	59	56,174	425	315,655	484	371,829
Over 100	3	3,797	72	51,957	75	55,754
Totals	13,907	\$21,889,063	24,615	\$30,158,708	38,522	\$52,047,771

1996 FUND
MONTHLY RETIREMENT ALLOWANCES BY ATTAINED AGE
AS OF JUNE 30, 2006

Attained Ages	Men		Women		Totals	
	Number	Monthly Allowances	Number	Monthly Allowances	Number	Monthly Allowances
Under 20						
20 - 24			1	\$ 763	1	\$ 763
25 - 29						
30 - 34						
35 - 39	1	\$ 238	2	484	3	722
40 - 44	2	984	1	545	3	1,529
45 - 49	2	1,114	6	3,035	8	4,149
50 - 54	11	5,935	25	17,758	36	23,693
55 - 59	147	308,700	160	259,965	307	568,665
60 - 64	205	395,716	246	389,371	451	785,087
65 - 69	140	249,955	176	236,871	316	486,826
70 - 74	51	85,966	74	80,987	125	166,953
75 - 79	21	26,499	33	33,040	54	59,539
80 - 84	8	8,286	7	7,387	15	15,673
85 - 89	3	2,242	3	3,122	6	5,364
90 - 94	1	2,024	1	610	2	2,634
95 - 99						
Over 100						
Totals	592	\$1,087,659	735	\$1,033,938	1,327	\$2,121,597

**PRE-1996 FUND INACTIVE VESTED MEMBERS
AS OF JUNE 30, 2006
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34			12					12
35-39			156	3				159
40-44			265	91	8			364
45-49			237	141	68	8		454
50-54			348	214	149	95	37	843
55-59			460	309	208	138	58	1,173
60			68	57	32	13	13	183
61			62	24	14	8	7	115
62			79	25	11	5	6	126
63			78	14	6	4	6	108
64			69	12	5	8	3	97
65			23	10	2	6	3	44
66			9	14	4	2	6	35
67			13	14	4		1	32
68			19	7	2	1	2	31
69			14	10	5	8	2	39
70			8	10	6	2	1	27
71			10	6	2	4	3	25
72			11	7	4	1	2	25
73			15	5	2	3	1	26
74			6	10	7	4	4	31
75			15	8	5	2	4	34
76			8	9	9	4	3	33
77			6	6	5	1	7	25
78			4	6	9	3	4	26
79 & Over			64	44	44	31	31	214
Totals	-	-	2,059	1,056	611	351	204	4,281

Average Age: 56.3 years
Average Service: 16.8 years

**1996 FUND INACTIVE VESTED MEMBERS
AS OF JUNE 30, 2006
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34			21					21
35-39			119	5				124
40-44			90	33	1			124
45-49			120	45	19	4		188
50-54			98	51	27	11	3	190
55-59			110	69	40	18	9	246
60			12	7	5	1	1	26
61			13	3	3	1		20
62			13	5	2		1	21
63			22	2	1			25
64			9	1		1	1	12
65			10	3				13
66			1				1	2
68				1	1			2
69			2					2
71			2					2
73				1				1
74			1					1
77			1					1
79							1	1
Totals	-	-	644	226	99	36	17	1,022

Average Age: 50.3 years
Average Service: 14.8 years

**PRE-1996 FUND ACTIVE MEMBERS
AS OF JUNE 30, 2006
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
15-19	1							1
20-24	74							74
25-29	366	101						467
30-34	137	292	224	1				654
35-39	138	173	1,877	555	1			2,744
40-44	122	114	712	1,981	817	4		3,750
45-49	94	122	603	1,110	2,366	988	4	5,287
50-54	73	112	693	1,168	1,346	3,603	2,131	9,126
55-59	55	100	484	1,156	1,506	1,637	5,544	10,482
60	6	10	44	115	189	180	725	1,269
61	2	12	22	100	132	119	495	882
62	2	4	39	68	88	82	379	662
63	5	7	24	44	61	83	289	513
64	1	7	23	31	54	40	255	411
65		5	11	21	25	29	151	242
66	2	2	7	9	15	17	77	129
67	1	3	2	4	9	5	63	87
68	2	1	3	4	7	7	49	73
69	1		1	4	4	3	24	37
70	1	2	4		5	4	20	36
71	1	2	1	1	1	1	6	13
72	1	2	2	1		3	7	16
73		1				1	7	9
74		1					4	5
75			3	2			5	10
76							1	1
77	1		1					2
78								
79 & Over		1	1	1			9	12
Totals	1,086	1,074	4,781	6,376	6,626	6,806	10,245	36,994

Average Age: 51.1 years
Average Service: 23.2 years

**1996 FUND ACTIVE MEMBERS
AS OF JUNE 30, 2006
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
15-19	5							5
20-24	1,459							1,459
25-29	6,383	2,013	1					8,397
30-34	1,883	4,702	994	2				7,581
35-39	1,269	2,037	1,864	210	2			5,382
40-44	971	1,212	727	570	138			3,618
45-49	834	1,187	709	351	381	113	1	3,576
50-54	566	838	656	335	232	310	128	3,065
55-59	376	520	466	316	177	150	308	2,313
60	38	52	56	27	22	20	37	252
61	31	42	32	16	12	7	32	172
62	28	37	24	13	11	8	19	140
63	23	27	18	11	4	6	6	95
64	26	22	19	3	5	1	8	84
65	18	16	7		2	2	4	49
66	10	12	4	4	3	1	2	36
67	18	7	4		1		4	34
68	8	5	2	1				16
69	8	2	4		1			15
70	12	8	1					21
71	6	5						11
72	5	4						9
73	4	2	1		1			8
74	4	1	1					6
75		1						1
76	2	1						3
77	2							2
78	1	2						3
79 & Over		1	1			1		3
Totals	13,990	12,756	5,591	1,859	992	619	549	36,356

Average Age: 37.8 years
Average Service: 7.5 years

SECTION F



Disclosures Required by
GASB Statements No. 25 and No. 27

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

Under the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27, certain information about the plan is required to be disclosed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2006
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Pay Closed
Amortization period	28 Years
Asset valuation method	4-year smoothed market value with corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	4.50% -15.50%
*Includes wage inflation at	4.50%
Cost-of-living adjustments	1.0% compounded annually on pension portion

Membership in the plan consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

	<u>2006</u>
Retired members and beneficiaries receiving benefits	39,849
Terminated plan members entitled to but not yet receiving benefits	
Vested	5,303
Non-Vested	32,912
Active plan members	<u>73,350</u>
Totals	151,414

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION
ISTRF TOTAL

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b) - (a)] / (c)
1996	\$ 3,262,619,379	\$ 10,330,788,316	\$ 7,068,168,937	31.6 %	\$ 2,878,329,486	245.6 %
1997*	3,750,138,439	11,044,660,156	7,294,521,717	34.0	2,984,603,913	244.4
1998	4,266,312,063	11,780,174,095	7,513,862,032	36.2	3,094,940,606	242.8
1999	4,970,720,334	12,670,924,443	7,700,204,109	39.2	3,294,326,130	233.7
2000	5,578,046,785	13,115,065,443	7,537,018,658	42.5	3,192,604,492	236.1
2001	5,810,759,564	13,523,825,973	7,713,066,409	43.0	3,318,877,027	232.4
2002*	6,176,574,529	14,664,661,236	8,488,086,707	42.1	3,609,470,436	235.2
2003*	6,554,364,927	14,747,339,056	8,192,974,129	44.4	3,585,134,913	228.5
2004*	6,804,394,627	15,197,925,988	8,393,531,361	44.8	3,651,653,125	229.9
2005*	7,065,299,476	16,264,893,444	9,199,593,968	43.4	3,734,329,113	246.4
2006	7,686,688,965	16,852,916,268	9,166,227,303	45.6	3,802,721,221	241.0
2006*	7,686,688,965	17,365,572,132	9,678,883,167	44.3	3,802,721,221	254.5

Schedule of Employer Contributions

Fiscal Year Ending	Valuation Date June 30	Annual Required Contribution	Actual Employer Contribution#	Percentage Contributed
1998	1996	\$508,940,065	\$465,350,488	91.4%
1999	1997	508,259,679	612,349,218	120.5
2000	1998	524,815,537	647,441,260	123.4
2001	1999	547,532,673	689,219,756	125.9
2002	2000	537,789,669	566,226,658	105.3
2003	2001	572,226,197	602,231,775	105.2
2004	2002	638,541,074	438,180,343	68.6
2005	2003	619,186,005	484,778,888	78.3
2006	2004	672,555,533	701,340,085	104.3
2007	2005	742,882,002	N/A	N/A
2008	2006	758,503,977	N/A	N/A
2008	2006*	800,059,308	N/A	N/A

* Revised benefits and/or actuarial assumptions and/or methods.

Actual Employer Contributions prior to the 2004 fiscal year were supplied by ISTRF staff and may differ slightly from the financial statements provided for those valuations.

This information is presented in draft form for review by the Fund's auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the Fund's financial statements.

GASB STATEMENTS NO. 25 AND NO. 27
STATEMENT OF CHANGES IN PLAN NET ASSETS, 2005-2006

Net Assets at Beginning of Year	\$ 7,179,715,874
Additions	
Contributions	
Member Contributions	\$ 130,496,002
Employer Contributions	671,340,085
Employer Contributions - Pension Stabilization	30,000,000
Total Contributions	\$ 831,836,087
Investments	
Net Appreciation (Depreciation) in Fair Value	\$ 357,187,368
Interest Income	165,264,619
Dividend Income	64,373,704
Securities Lending Income	58,937,319
Less Investment Expense	
Investment Fees	(18,609,224)
Securities Lending Fees	(54,864,087)
Net Investment Income	\$ 572,289,699
Other Additions	
Transfers From Other Retirement Funds	\$ 5,091,848
Annuity and Disability Refunds	1,012,005
Outdated Benefit Checks	0
Reimbursement of Administrative Expense	2,026
Total Other Additions	\$ 6,105,879
Total Additions	\$ 1,410,231,665
Deductions	
Annuity and Disability Benefits	\$ 780,705,544
Voluntary and Death Withdrawals	9,562,221
Claims on Outdated Benefit Checks	20,218
Administrative Expenses	6,074,416
Capital Projects	653,370
Depreciation Expenses	24,211
Transfers to Other Retirement Funds	1,483,728
Total Deductions	\$ 798,523,708
Change in Net Assets Held in Trust for Pension Benefits	\$ 611,707,957
Net Assets at End of Year	\$ 7,791,423,831

GASB STATEMENTS NO. 25 AND NO. 27
STATEMENT OF PLAN NET ASSETS, June 30, 2006

Assets	
Cash and Cash Equivalents	\$ 1,037,220,177
Securities Lending Collateral	\$ 1,317,607,781
Receivables	
Employer Contributions	\$ 22,997,354
Due from PERF	825,869
Member Contributions	35,838,987
Due from Lottery Commission	500,000
Securities Sold	705,948,710
Investments Interest	31,134,389
Total Receivables	\$ 797,245,309
Investments	
U.S. Treasury and Agency Obligations	\$ 0
Corporate Bonds and Notes	0
Foreign Bonds	0
Equity Securities	3,508,793,739
Foreign Equity Securities	0
Mortgage Securities	0
Venture Capital & Partnerships	0
State & Municipal Securities	0
Debt Securities	3,434,714,470
Indiana Pension Systems, Inc.	0
Real Estate	313,047,045
Total Investments	\$ 7,256,555,254
Furniture and Equipment	30,612
Insurance Premium Paid in Advance	0
Total Assets	\$ 10,408,659,133
Liabilities	
Accrued Benefits Payable	\$ 0
Accrued Salaries Payable	97,375
Accrued Liability for Compensated Absences - Current	153,164
Accounts Payable	4,960,385
Due to PERF	0
Securities Lending Collateral	1,317,607,781
Payables for Securities Purchased	1,294,293,153
Total Current Liabilities	\$ 2,617,111,858
Accrued Liability for Compensated Absences - Long-Term	123,444
Total Liabilities	\$ 2,617,235,302
Net Assets Held in Trust for Pension Benefits	\$ 7,791,423,831

SECTION G



Actuarial Assumptions,
Methods and Definitions

SUMMARY OF ASSUMPTIONS AND METHODS USED FOR ISTRF ACTUARIAL VALUATION

The assumptions used in this valuation reflect the study of experience covering the period July 1, 1996 through June 30, 2002.

The investment return rate used in making the valuations was 7.5% per year, compounded annually (net after administrative expenses). Considering other financial assumptions, the 7.5% investment return rate translates to an assumed real rate of return of 3.0% over across-the-board salary increases and 3.5% over price inflation.

Pay increase assumptions for individual active members are shown based on service on page G-8. Part of the assumption for each age is for a merit and/or seniority increase, 4.0% recognizes price inflation and 0.5% recognizes real wage growth.

Total active member payroll is assumed to increase 4.5% annually, which is the portion of the individual pay increase assumptions attributable to inflation and other factors.

Price inflation, although not directly tied to benefits, was assumed to be 4.0% and is a component of the economic model used to determine the total wage inflation.

The total number of active members is assumed to continue at the present number.

The mortality table, for post-retirement mortality and pre-retirement mortality, used in valuing allowances to be paid was the 1983 Group Annuity Mortality Male Table set back 5 years for men and 7 years for women. Related values are shown on pages G-3 and G-4. Disabled post-retirement mortality used was the 1983 Group Annuity Male Mortality Table, set forward 5 years for men and 3 years for women.

Probabilities of retirement are shown on page G-5.

The probabilities of withdrawal are shown for sample ages on page G-6.

The probabilities of disability are shown for sample ages on page G-7.

The entry age normal actuarial cost method of valuation was used in determining age and service allowance liability and normal cost, and vesting liability and normal cost.

Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of unfunded actuarial accrued liability.

Unfunded actuarial accrued liability is amortized to produce payments (principal and interest) which are level percent-of-payroll contributions.

Employer contribution dollars were assumed to be *paid in equal installments* throughout the employer fiscal year.

Present assets (cash and investments) were valued using the funding value.

The data about persons now covered and about present assets were furnished by the Fund’s Administrative Staff. Although examined for general reasonableness, the data was not otherwise audited by the Actuary.

The actuarial valuation computations were made under the supervision of a Member of the American Academy of Actuaries (MAAA).

SINGLE LIFE RETIREMENT VALUES

Sample Attained Ages	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Males	Females	Males	Females
45	\$158.38	\$160.46	38.46	40.38
50	152.16	154.83	33.74	35.62
55	144.49	147.73	29.18	30.98
60	135.22	139.15	24.82	26.55
65	123.83	128.68	20.64	22.29
70	110.16	115.85	16.69	18.23
75	95.34	101.32	13.18	14.52
80	80.03	86.22	10.15	11.31
Ref:	#166sb3x1	#167sb0x1		

Sample Attained Ages	Portion of Age 55 Members Still Alive	
	Males	Females
55	100.00 %	100.00 %
60	97.64	98.05
65	94.17	95.07
70	88.96	90.74
75	80.41	83.77
80	67.75	72.81
85	50.97	57.78

POST-RETIREMENT MORTALITY

Age	Regular		Disabled		Age	Regular		Disabled	
	Male	Female	Male	Female		Male	Female	Male	Female
21	0.00033	0.00032	0.00049	0.00044	61	0.00662	0.00566	0.01758	0.01387
22	0.00034	0.00033	0.00051	0.00046	62	0.00714	0.00613	0.01980	0.01559
23	0.00035	0.00033	0.00054	0.00049	63	0.00772	0.00662	0.02223	0.01758
24	0.00037	0.00034	0.00057	0.00051	64	0.00838	0.00714	0.02482	0.01980
25	0.00038	0.00035	0.00061	0.00054	65	0.00916	0.00772	0.02753	0.02223
26	0.00039	0.00037	0.00065	0.00057	66	0.01006	0.00838	0.03035	0.02482
27	0.00041	0.00038	0.00069	0.00061	67	0.01113	0.00916	0.03337	0.02753
28	0.00042	0.00039	0.00073	0.00065	68	0.01239	0.01006	0.03668	0.03035
29	0.00044	0.00041	0.00078	0.00069	69	0.01387	0.01113	0.04039	0.03337
30	0.00046	0.00042	0.00086	0.00073	70	0.01559	0.01239	0.04460	0.03668
31	0.00049	0.00044	0.00091	0.00078	71	0.01758	0.01387	0.04939	0.04039
32	0.00051	0.00046	0.00097	0.00086	72	0.01980	0.01559	0.05476	0.04460
33	0.00054	0.00049	0.00104	0.00091	73	0.02223	0.01758	0.06068	0.04939
34	0.00057	0.00051	0.00113	0.00097	74	0.02482	0.01980	0.06713	0.05476
35	0.00061	0.00054	0.00124	0.00104	75	0.02753	0.02223	0.07407	0.06068
36	0.00065	0.00057	0.00137	0.00113	76	0.03035	0.02482	0.08148	0.06713
37	0.00069	0.00061	0.00153	0.00124	77	0.03337	0.02753	0.08932	0.07407
38	0.00073	0.00065	0.00172	0.00137	78	0.03668	0.03035	0.09753	0.08148
39	0.00078	0.00069	0.00193	0.00153	79	0.04039	0.03337	0.10605	0.08932
40	0.00086	0.00073	0.00218	0.00172	80	0.04460	0.03668	0.11484	0.09753
41	0.00091	0.00078	0.00247	0.00193	81	0.04939	0.04039	0.12417	0.10605
42	0.00097	0.00086	0.00279	0.00218	82	0.05476	0.04460	0.13387	0.11484
43	0.00104	0.00091	0.00314	0.00247	83	0.06068	0.04939	0.14407	0.12417
44	0.00113	0.00097	0.00351	0.00279	84	0.06713	0.05476	0.15486	0.13387
45	0.00124	0.00104	0.00391	0.00314	85	0.07407	0.06068	0.16631	0.14407
46	0.00137	0.00113	0.00432	0.00351	86	0.08148	0.06713	0.17821	0.15486
47	0.00153	0.00124	0.00476	0.00391	87	0.08932	0.07407	0.19046	0.16631
48	0.00172	0.00137	0.00520	0.00432	88	0.09753	0.08148	0.20301	0.17821
49	0.00193	0.00153	0.00566	0.00476	89	0.10605	0.08932	0.21790	0.19046
50	0.00218	0.00172	0.00613	0.00520	90	0.11484	0.09753	0.23409	0.20301
51	0.00247	0.00193	0.00662	0.00566	91	0.12417	0.10605	0.24844	0.21790
52	0.00279	0.00218	0.00714	0.00613	92	0.13387	0.11484	0.26395	0.23409
53	0.00314	0.00247	0.00772	0.00662	93	0.14407	0.12417	0.28080	0.24844
54	0.00351	0.00279	0.00838	0.00714	94	0.15486	0.13387	0.29915	0.26395
55	0.00391	0.00314	0.00916	0.00772	95	0.16631	0.14407	0.31918	0.28080
56	0.00432	0.00351	0.01006	0.00838	96	0.17821	0.15486	0.34109	0.29915
57	0.00476	0.00391	0.01113	0.00916	97	0.19046	0.16631	0.36505	0.31918
58	0.00520	0.00432	0.01239	0.01006	98	0.20301	0.17821	0.39310	0.34109
59	0.00566	0.00476	0.01387	0.01113	99	0.21790	0.19046	0.42726	0.36505
60	0.00613	0.00520	0.01559	0.01239	100	0.23409	0.20301	0.46953	0.39310
Ref	#166sb3x1	#167sb0x1	#166sb-7x1	#167sb-10x1		#166sb3x1	#167sb0x1	#166sb-7x1	#167sb-10x1

**PROBABILITIES OF AGE AND SERVICE RETIREMENT
FOR MEMBERS ELIGIBLE TO RETIRE**

Regular Retirement			Rule of 85 Retirement			Early Retirement		
Age	Male	Female	Age	Male	Female	Age	Male	Female
						50	0.0100	0.0100
						51	0.0100	0.0100
						52	0.0100	0.0100
						53	0.0100	0.0100
						54	0.0200	0.0200
			55	0.1100	0.1100	55	0.0300	0.0300
			56	0.1000	0.1100	56	0.0300	0.0350
			57	0.1000	0.1200	57	0.0350	0.0400
			58	0.1200	0.1200	58	0.0400	0.0500
			59	0.1500	0.1600	59	0.0300	0.0600
60	0.1500	0.1500	60	0.1500	0.1500			
61	0.1500	0.1500	61	0.1500	0.1500			
62	0.2500	0.2000	62	0.2500	0.2000			
63	0.2000	0.2000	63	0.2000	0.2000			
64	0.2000	0.2000	64	0.2000	0.2000			
65	0.3500	0.3500	65	0.3500	0.3500			
66	0.2500	0.2500	66	0.2500	0.2500			
67	0.2000	0.2500	67	0.2000	0.2500			
68	0.2000	0.3000	68	0.2000	0.3000			
69	0.2000	0.3000	69	0.2000	0.3000			
70	1.0000	1.0000	70	1.0000	1.0000			
Ref	485	732		486	734		435	481

**WITHDRAWAL RATES
PRIOR TO ELIGIBILITY FOR RETIREMENT**

Years of Service	Service Based	
	Male	Female
0-1	0.3000	0.3500
1-2	0.1700	0.1800
2-3	0.1100	0.1400
3-4	0.0900	0.1100
4-5	0.0700	0.1000
5-6	0.0600	0.0800
6-7	0.0500	0.0650
7-8	0.0450	0.0600
8-9	0.0400	0.0550
9-10	0.0400	0.0500
Ref	293	294

Attained Age	Age Based	
	Male	Female
25	0.0664	0.0950
26	0.0664	0.0950
27	0.0648	0.0950
28	0.0576	0.0880
29	0.0504	0.0800
30	0.0432	0.0720
31	0.0368	0.0650
32	0.0304	0.0580
33	0.0288	0.0520
34	0.0256	0.0480
35	0.0232	0.0430
36	0.0208	0.0380
37	0.0184	0.0340
38	0.0168	0.0310
39	0.0152	0.0290
40	0.0144	0.0260
41	0.0136	0.0240
42	0.0128	0.0220
43	0.0128	0.0210
44	0.0128	0.0200
45	0.0120	0.0200
46	0.0120	0.0200
47	0.0120	0.0200
48	0.0120	0.0200
49	0.0120	0.0200
50	0.0120	0.0200
51	0.0112	0.0200
52	0.0112	0.0200
53	0.0112	0.0200
54	0.0112	0.0190
55	0.0104	0.0180
56	0.0104	0.0160
57	0.0096	0.0140
58	0.0096	0.0140
59	0.0096	0.0140
60	0.0096	0.0140
Ref	#202 x 0.8	#203 x 1

**DISABILITY RATES
PRIOR TO ELIGIBILITY FOR RETIREMENT**

Attained Age	Age Based	
	Male	Female
20	0.0001	0.0001
21	0.0001	0.0001
22	0.0001	0.0001
23	0.0001	0.0001
24	0.0001	0.0001
25	0.0001	0.0001
26	0.0001	0.0001
27	0.0001	0.0001
28	0.0001	0.0001
29	0.0001	0.0001
30	0.0001	0.0001
31	0.0001	0.0001
32	0.0001	0.0001
33	0.0001	0.0001
34	0.0001	0.0001
35	0.0001	0.0001
36	0.0001	0.0001
37	0.0001	0.0001
38	0.0001	0.0001
39	0.0001	0.0001
40	0.0001	0.0001
41	0.0002	0.0002
42	0.0002	0.0002
43	0.0002	0.0002
44	0.0002	0.0002
45	0.0002	0.0002
46	0.0003	0.0003
47	0.0003	0.0003
48	0.0004	0.0004
49	0.0004	0.0004
50	0.0005	0.0005
51	0.0006	0.0006
52	0.0007	0.0007
53	0.0008	0.0008
54	0.0008	0.0008
55	0.0009	0.0009
56	0.0009	0.0009
57	0.0010	0.0010
58	0.0010	0.0010
59	0.0010	0.0010
60	0.0010	0.0010
Ref	#135 x 0.1	#135 x 0.1

PAY INCREASE ASSUMPTIONS FOR AN INDIVIDUAL MEMBER

Years of Service	Salary Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
1	11.00%	4.50%	15.50%
2	7.50%	4.50%	12.00%
3	5.50%	4.50%	10.00%
4	5.50%	4.50%	10.00%
5	5.00%	4.50%	9.50%
6	4.50%	4.50%	9.00%
7	4.50%	4.50%	9.00%
8	4.00%	4.50%	8.50%
9	4.00%	4.50%	8.50%
10	3.50%	4.50%	8.00%
11	3.00%	4.50%	7.50%
12	3.00%	4.50%	7.50%
13	2.50%	4.50%	7.00%
14	2.50%	4.50%	7.00%
15	2.50%	4.50%	7.00%
16	2.50%	4.50%	7.00%
17	2.50%	4.50%	7.00%
18	2.50%	4.50%	7.00%
19	2.00%	4.50%	6.50%
20	1.50%	4.50%	6.00%
21	1.00%	4.50%	5.50%
22	0.75%	4.50%	5.25%
23	0.50%	4.50%	5.00%
24	0.25%	4.50%	4.75%
25	0.25%	4.50%	4.75%
26	0.25%	4.50%	4.75%
27	0.25%	4.50%	4.75%
28	0.25%	4.50%	4.75%
29	0.25%	4.50%	4.75%
30	0.25%	4.50%	4.75%
31	0.25%	4.50%	4.75%
32	0.25%	4.50%	4.75%
33	0.25%	4.50%	4.75%
34	0.25%	4.50%	4.75%
35	0.25%	4.50%	4.75%
36	0.25%	4.50%	4.75%
37	0.25%	4.50%	4.75%
38	0.25%	4.50%	4.75%
39	0.25%	4.50%	4.75%
40	0.25%	4.50%	4.75%
Ref.	64		

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption:	100% of members are assumed to be married for purposes of valuing death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of (fiscal) year. Payroll amounts stated in the valuation data are amounts actually paid during the prior year.
Decrement Timing:	Retirement decrements are assumed to occur at the beginning of the year, other decrements are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Other:	Disability and withdrawal decrements do not operate after member reaches retirement eligibility. Only the withdrawal decrement operates during the first 10 years of service.
Miscellaneous Adjustments:	The calculated normal, early retirement and vested deferred liabilities and normal costs were increased by 1% to account for the inclusion of unused sick leave in the calculation of Average Compensation.
Actuarial Equivalence Basis for Optional Forms of Payment:	7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Mortality table set back 3 years and the 1983 Group Annuity Mortality Table set back 7 years.
COLA Assumption:	1.0% compounded annually on pension portion.

DEFINITIONS OF TECHNICAL TERMS

ACCRUED SERVICE. Service credited under the system which was rendered before the date of the actuarial valuation.

ACTUARIAL ACCRUED LIABILITY. The difference between the actuarial present value of future benefit payments and the actuarial present value of future normal costs. Also referred to as “accrued liability” or “past service liability.”

ACTUARIAL ASSUMPTIONS. Estimates of expected future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment return and pay increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (pay increases and investment return) consist of the underlying rates in an inflation-free environment plus a provision for a long-term average rate of inflation.

ACTUARIAL COST METHOD. A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future benefit payments” between future normal costs and actuarial accrued liabilities. Sometimes referred to as the “actuarial funding method.”

ACTUARIAL EQUIVALENT. One series of payments is said to be actuarially equivalent to another series of payments if the two series have the same actuarial present value.

ACTUARIAL GAIN (LOSS). The difference between actual unfunded actuarial accrued liability and anticipated unfunded actuarial accrued liability -- during the period between two valuation dates. It is a measurement of the difference between actual and expected experience.

ACTUARIAL PRESENT VALUE. The single amount now which is equal to a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

DEFINITIONS OF TECHNICAL TERMS

AMORTIZATION. Paying off a present value with periodic payments.

NORMAL COST. The portion of the actuarial present value of future benefits that is assigned to the current year by the actuarial cost method. Sometimes referred to as “current cost.”

UNFUNDED ACTUARIAL ACCRUED LIABILITY. The difference between the actuarial accrued liabilities and the actuarial value of assets. Sometimes referred to as “unfunded past service liability,” or “unfunded accrued liability” or simply as “unfunded liability.”

SECTION H



Financial Principles

FUNDING OBJECTIVE

The funding objective of the ISTRF 1996 Fund is to establish and receive contributions which, when invested at the assumed rate of return, will ultimately accumulate assets over each member's working lifetime that will be sufficient to pay expected retirement allowances.

Fund Structure and Funding Arrangements

The Indiana State Teachers' Retirement Fund (ISTRF) is comprised of a two-fund structure in compliance with Indiana Code Section 21-6.1-2-2:

- The **Pre-1996 Fund** consists of those members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date.
- The **1996 Fund** consists of those members who were:
 - (a) hired on or after July 1, 1995, or
 - (b) hired before July 1, 1995, served in a position covered by ISTRF, and, subsequent to June 30, 1995, were either hired by another school corporation or institution covered by ISTRF, or were rehired by a covered prior employer.

Characteristics of the Pre-1996 Fund:

1. Active membership in the Pre-1996 Fund continues to decline as members quit, become disabled, die, retire, or incur a change in status as described in (b) above, thereby automatically transferring to membership in the 1996 Fund.
2. The pension benefits from the Pre-1996 Fund are funded by State appropriations (including short-term contributions of some revenue from the State Lottery). Annuity benefits payable from the Pre-1996 Fund are funded by the annuitization of Pre-1996 Fund member contributions at the time of retirement.

Characteristics of the 1996 Fund:

1. As members depart from active service in the Pre-1996 Fund, their replacements will become members of the 1996 Fund. If the 1996 Fund were a stand-alone plan, this pattern of departures and hirings would produce a fairly constant population size. However, overall active membership in the 1996 Fund is expected to increase over time due to the following factors:
 - (a) As Pre-1996 Fund members depart from active service, their replacements will become members of the 1996 Fund; and
 - (b) The special provisions of Indiana Code Section 21-6.1-2-2 require that any member who changes jobs within the System or who is rehired within the System after a period of absence automatically becomes a 1996 Fund member.
2. The result of an expanding membership in the 1996 Fund is growth in the 1996 Fund payroll. The expanding 1996 Fund population and payroll present challenges to level percent-of-payroll funding.
3. Pension benefits payable from the 1996 Fund are funded by contributions from local school corporations or other institutions that employ covered members. Annuity benefits payable at retirement from the 1996 Fund are funded by 1996 Fund members.

PLAN STRUCTURES AND FUNDING ARRANGEMENTS

Funding Arrangements

Prior to the legislation that established the two-fund structure in ISTRF, the pension benefits of the Indiana State Teachers' Retirement System were funded on a pay-as-you go system. Under this arrangement, amounts were appropriated to meet the current year's pension payment requirements. Pension benefits payable from the Pre-1996 Fund continue to be funded on this basis. In 1995, the Pension Stabilization Fund was set up for the Pre-1996 Fund.

Since then, some pre-funding progress has been made via State appropriations to this Fund. Pension benefits payable from the 1996 Fund are funded through percent-of-pay contributions. The Teachers' Retirement Board sets this contribution rate after reviewing the most recent actuarial valuation report. The current contribution rate of 7.0% was set by the Board in 2005.

Most public employee retirement systems choose or are required by state law to pre-fund their plans. One of the advantages to pre-funding is that a pool of assets is created and built up to a point that investment income on those assets becomes a major contributor to the fund. Under the pay-as-you-go funding method, the contribution rate starts off much lower, but continues to grow over generations of taxpayers, to a point much higher than under the pre-funding method. Essentially, by not pre-funding a plan, future taxpayers will have to pay more and inter-generational equity between generations of taxpayers will be compromised.

THE ACTUARIAL VALUATION PROCESS

The actuarial valuation is the mathematical process by which a contribution rate is determined. The flow of activity constituting the valuation may be summarized as follows:

- A. **Covered Person Data**, furnished by the plan administrator
 - Retired members and beneficiaries now receiving benefits
 - Former employees with vested benefits not yet payable
 - Active employees

- B. + **Asset data (cash and investments)**, furnished by the plan administrator

- C. + **Estimates of future experience (actuarial assumptions)**, which are established by the Board of Trustees after consulting with the actuary

- D. + **Funding method** for employer contributions (the long-term planned pattern for employer contributions)

- E. + **Mathematically combining the assumptions, the funding method, and the data**

- F. = Determination of:
 - Plan financial position*
 - and/or *New Employer Contribution Rate*

December 27, 2006

Ms. Cristy S. Wheeler
Executive Director
Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, Indiana 46204-2809

Dear Ms. Wheeler:

Enclosed are 45 copies of the actuarial valuation of active and inactive members and retired lives of ISTRF as of June 30, 2006.

We look forward to meeting with the Retirement Board in January.

Sincerely,

A handwritten signature in cursive script that reads "Judith A. Kermans". The signature is written in black ink and is positioned above the printed name.

Judith A. Kermans

JAK:clb:lr
Enclosures

cc: Mary Beth Braitman
Kenneth G. Alberts
Brian B. Murphy